



Central Intelligence Agency  
Office of the Deputy Director for Intelligence

11 SEP 1984

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MEMORANDUM FOR: Director of Central Intelligence

The attached typescript examines the reasons behind the warming trend in relations between the two Germanys that we have witnessed in recent months. It also addresses the Soviet reaction to that trend and estimates what we might expect from that triangular relationship for the rest of the year.

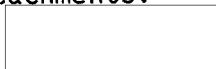
In response to the points you made about the East German economy in your memo of 5 September, I am also including two of our latest studies plus a recent briefing paper on that subject.



Robert M. Gates  
Deputy Director for Intelligence

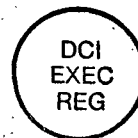
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Attachments:



Briefing Paper

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Remarks

D/Executive Secretary

6 September 1984

Date

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Executive Registry

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5 September 1984

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MEMORANDUM FOR: Deputy Director for Intelligence  
FROM: Director of Central Intelligence  
SUBJECT: Soviet Union and East Germany

1. There is a strain of difference in what we have been hearing over the last several days regarding what is going on in Moscow. There was the NSC representative at [ ] citing the continuing conflict between hard-liners and soft-liners in Moscow as a Soviet deception intended to influence Western policy in the direction of strengthening the supposed soft-liners. Then there was the discussion at the NIC meeting yesterday resulting in something of a consensus that, in the struggle for succession in Moscow, all elements are careful to stay with the traditional or "hard" line. Then I read in the article [ ] this morning that East Germany apparently judged that the influence of hard-liners in Moscow was too great to proceed with the Honecker visit. It may be that the opposition was too great.

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[ ] In short, the story is full of hard-liner and soft-liner theory. Perhaps some framework for examining this in depth and some form of defining conflicting views on this score and getting this thrashed out or at least articulated might be worthwhile.

2. Also, [ ] Soviet economic measures on East Germany particularly illuminating in light of the Honecker decision not to visit. An analysis of this and follow-on economic measures, how it might have been perceived to be offsetable by improved economic relations with East Germany, and how the economic future now looks for East Germany and what it means for a relationship between the two Germanys and between Germany and the Soviet Union might be a useful and relevant piece of analysis now. Perhaps it should be done briefly in the context of what George Kolt undertook to do at yesterday's NIC meeting, to be followed by a longer and deeper exploration.

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William J. Casey

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The East German Question Revisited

## Summary

The German question is back, but with a new twist. When it was last at center stage in the early 1970s, the East Germans had to be forced by the Soviets to negotiate a treaty with West Germany. The roles are now reversed. For the past year East Berlin has been eager to engage in a dialogue with Bonn at a time when Moscow--still smarting from its failure to prevent INF deployments--has emphasized confrontation with the West, and particularly the basing countries, for agreeing to deploy. [REDACTED]

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East German party leader Honecker clearly has a different view. He favors "limiting the damage" caused by the deployment and his tactics have paid dividends. Two large credits guaranteed by Bonn have helped strengthen the East German economy at a time when Soviet support has begun to tail off. The concessions Honecker has made--relaxed travel arrangements for West German visitors and a dramatic increase in East German emigration--entail some risks but are popular measures which provide Honecker some political capital domestically. [REDACTED]

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But Moscow is not convinced that the benefits that

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accrue to East Germany add up to a net advantage for the Warsaw Pact. True, closer ties with the West make East Germany less of an economic burden for the Soviet Union and might even provide access to advanced technology. There is also a chance that German togetherness would reduce Bonn's commitment to NATO. But at least some Soviet leaders appear more concerned that closer intra-German ties could not only threaten the internal situation in East Germany, but also encourage elements in West Germany, and elsewhere in Eastern Europe, that want to change the post World War II status quo. [REDACTED]

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These Soviet concerns apparently were the primary reason for Honecker's postponement on 4 September of what would have been the first trip to West Germany by an East German leader. Both Germanys will probably pause now to reassess and consolidate, but we would have expected such a slowdown even if the trip had occurred. Moscow, having asserted its prerogative to determine the pace of intra-German relations, may be willing to let Bonn and East Berlin resume their dialogue, possibly later this year, but perhaps focusing at first on narrow economic and technical issues. Moscow's enthusiasm for intra-German relations may increase if Honecker is able to entice the Kohl government with broader discussions of security issues. [REDACTED]

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Background

Last October in a letter to Chancellor Kohl, East German party leader Honecker threatened a "new ice age" in relations between the GDR and the FRG if INF deployments went ahead. Such rhetoric was consistent with the total support East Berlin had given to the Soviet campaign on this issue. Two weeks after the letter was published, a similar threat appeared in the communique from the Gromyko-Honecker talks in East Germany. It warned of "serious losses" for West Germany's Ostpolitik and claimed INF deployments would endanger the normalization of intra-German relations achieved in the treaties signed in the early 1970s.

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It is now obvious that Honecker--acutely aware of the substantial financial advantages provided in recent years by East Germany's special relationship with Bonn--had no intention of carrying out these threats.

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This latter priority was dramatically reinforced in a speech by Honecker on 24 November, two days after the Bundestag voted to approve INF deployment.

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Honecker told a party plenum at that time that, although deployment had caused "serious damage" in relations with West

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Germany, he was "in favor of limiting the damage as much as possible." He added it was vitally important to continue the political dialogue and, departing completely from the notion of an ice age, said he favored "every opportunity for negotiations." He dutifully supported the Soviet decision on counterdeployments, but tempered his support by stating the decision to station missiles in East Germany had "caused no joy in our country." [REDACTED]

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In any case intra-German relations--which had already received a significant boost from the DM one billion West German credit guarantee in June 1983--continued to move ahead as if the INF controversy did not exist.

- Agreement was reached for improving postal and telecommunication services.
- After years of contentious negotiations, the East Germans agreed to transfer control of a West Berlin commuter rail system to the West Berlin government.
- A number of West German politicians began making official or personal visits to East Germany.
- East Germany eased emigration restrictions; at least 33,000 have left for West Germany so far this year compared to the normal 8-10,000 annual average. Unlike past years this group contained large numbers of young, even well-trained East Germans.

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- The amount of money West German pensioners were required to exchange when visiting East Germany was reduced.
- Other travel restrictions were eased including an increase in the numbers of days West Germans were allowed to spend in East Germany from 45 to 60.
- The East Germans have slowly been dismantling the automatic "shooting devices" along the intra-German border.
- The second "jumbo loan" guaranteed by Bonn amounting to DM 950 million was announced on 25 July.
- Tentative agreement was reached on scheduling of Honecker's first visit to the FRG.

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Private and public commentary during the period shows the Soviets were indeed getting increasingly uneasy about the course of intra-German relations. In meetings with US and Allied

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officials, Soviet diplomats criticized both West and East Germans for their proliferation of contacts. Press coverage criticized centrifugal tendencies in the Warsaw Pact, warned against Western efforts to divide the Pact, and expressed Soviet concern over the development of "European" rather than East Bloc attitudes on the part of some East European states. [REDACTED]

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On 21 July, four days before agreement was announced on the new West German credit to East Germany, Pravda warned that "linkage" between West German credits and East German concessions on human contacts "risks overstepping the mark and going too far." Two days after the agreement was announced, Pravda weighed in again, accusing Bonn of using "economic levers and political contacts" to solicit concessions on matters of principle. Nevertheless, East Berlin implemented the humanitarian concessions associated with the credit agreement on 1 August as scheduled. The next day Pravda followed up on the attacks laid out on 27 July and again charged Bonn with wanting to undermine socialism in the GDR. At the beginning of September renewed Soviet press attacks against Bonn's alleged revanchism were followed quickly by the postponement of Honecker's visit. [REDACTED]

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The sharp Soviet reaction to the July agreement--compared to Moscow's reaction to similar arrangements made between the two Germanys in 1983--can be attributed, at least in part, to the obvious linkage between the humanitarian concessions and the credits. Last year East Berlin had a grace period of several

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months before it made any humanitarian concessions. This delay created political problems for Chancellor Kohl. This year, as noted above, the concessions were implemented almost immediately by East Germany while Bonn made a public announcement connecting the new credits with a list of 11 concessions. [REDACTED]

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### GDR Motivation

East Germany is not in the habit of getting out of step with Soviet policies. Why then did its intra-German policy exceed the bounds? Why did it deliberately risk Soviet displeasure by cultivating West Germany? The economic advantages for East Berlin are important, although the present condition of the East German economy is not desperate enough for it to be the sole reason Honecker risks alienating Moscow. [REDACTED]

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West German assistance, however, has played an important role in helping East Berlin to deal with serious financial problems that threatened its solvency and could have forced it to make an embarrassing request for debt relief from Western governments and banks. In trying to cope with mounting debt servicing problems, East Berlin in 1982 implemented a drastic adjustment program that allowed it to run trade surpluses, but at the cost of slower growth and declining living standards. East Berlin's special ties with West Germany helped cushion the impact of the adjustment program since it was able to increase imports from West Germany--by use of clearing account facilities and West

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German trade credits--to help compensate for cutbacks in imports from other Western countries. Moreover, in June 1983 and July 1984, East Berlin received large hard currency loans guaranteed by Bonn that provided direct assistance and also helped to restore bankers' confidence. [REDACTED]

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As a result of adjustment measures and West German support, the East German economy has successfully weathered its serious financial crisis and shows signs of recovery. Last year East Germany ran a \$1.3 billion hard currency trade surplus, reduced its debt by over \$1.7 billion, and increased its reserves. While our data on the East German economy are incomplete, official data and other evidence indicate that retail sales have been up and that the growth rate of real GNP rebounded to 2 percent in 1983, after stagnating in 1982. The West German credit guarantees have helped restore bank confidence in the GDR and, in response, interest charges are falling and the East Germans are able to borrow again. [REDACTED]

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But serious problems remain. The GDR's debt is still high and a serious deterioration of East-West relations could cause liquidity problems. The economy is inefficient and technology-poor by Western standards. In addition, coincident with East Germany's financial problems, the Soviet Union has become less supportive. Since 1981, Moscow has been unwilling to increase deliveries of raw materials, including oil, and has insisted that the bilateral terms of trade be turned sharply in its favor. A

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Under these circumstances, it makes sense for East Berlin to turn to its second biggest trading partner, West Germany, for relief. [REDACTED] 25X1

The concerns of East German leaders about the disenchanted populace they rule are closely associated with the economic imperatives that drive East Berlin closer to Bonn. In the absence of political linkage between the citizenry and the government, legitimacy of rule depends almost entirely on the results achieved by those in charge. A society--already discontent because it is not as free as it would like--can become explosive if the system imposed without its consent reduces rather than enhances its prosperity. Most East Germans can compare their circumstances with their Western counterparts by watching West German television. [REDACTED] 25X1

The East German leadership has continued to assign a high priority, therefore, to improving the standard of living. East German statistics and a large volume of anecdotal evidence indicate that an improvement has occurred in the past year, following the downturn brought on by serious financial problems. The West German "jumbo" credits this summer and last, plus the other advantages East Germany enjoys from intra-German commerce, contributed to this improvement. [REDACTED] 25X1

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Allowing average citizens increased opportunities to travel between West and East Germany also helps promote a general sense of well-being in East Germany. It is generally appreciated that the Soviet Union is against this freedom of movement, and Honecker gains a certain amount of popular respect for standing up to Moscow on this and other issues connected with the warming trend between the two Germanys. At the same time the unprecedented level of emigration permitted in the first half of 1984 gave the regime the opportunity to expel its most persistent agitators. [REDACTED]

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In sum, it would appear that East German leaders allow West Germans more access to the East German people, despite Soviet misgivings, because they believe that a reasonably content population is one that is more easily controlled. We do not have a good sense for just how restless the East German populace was a year ago or how much pacifying is required. We are confident, however, that the regime is keenly aware that a delicate balance exists between the level of contacts that provide for a more satisfied population, and that unknown point at which the cross-border cultural and political influences that derive from these contacts spawn pluralistic political trends that threaten the regime's control. [REDACTED]

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East Berlin also has a political agenda of its own to pursue with Bonn. It includes the following demands for greater formal recognition from Bonn:

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- recognition of, or possibly only "respect" for East German citizenship;
- elevation of the two countries' diplomatic missions to actual embassies;
- realignment of the intra-German border from the east shore to the center of the Elbe River; and
- abolition of the Salzgitter data center--which coordinates the monitoring of East German human rights abuse (particularly in connection with border control) as if they were subject to West German criminal law.

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East Germany's decision to pursue closer relations with Bonn in the last 20 months, despite Soviet anxieties, probably was encouraged by the unsettled leadership situation in Moscow. Honecker may have calculated that his margin for maneuver would be greater during a period when the Soviet hierarchy was preoccupied with internal politics.

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the East Germans may have been receiving mixed signals from Moscow. Honecker may have convinced some elements of the Soviet leadership that better relations between Bonn and East Berlin served Moscow's interest by driving wedges between NATO allies and by gaining access to hard currency and advanced technology. Whatever Honecker's strategy, it is now clear he underestimated underlying Soviet opposition to his plans.

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Elsewhere in the Bloc<sup>1</sup>

Like East Germany most of the other East European states are concerned that Moscow's intransigence on European security issues will undermine any hope for improvement in East-West economic relations. Help from the West is needed now more than ever because Moscow is conducting bilateral economic relations with its CEMA allies on much tougher terms than it has in the past. For these reasons the East European states were relieved when the CEMA summit in June seemed to confirm the acceptance of continued trade with the West. [REDACTED]

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The relief was brief. The 21, 27 July and 2 August Pravda articles criticizing the latest German agreements reopened the issue. Hungary, which has closer economic ties to the West than any other East European state, came to East Berlin's defense with three major press articles (28 July, 2 and 5 August) applauding

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the constructive cooperation between the two Germanys. This remarkable exchange was brought to a halt and replaced by what we judge must have been a Moscow-coordinated Warsaw Pact media campaign, including articles in the Hungarian press and an interview of Honecker on 17 August, denouncing the evils of West German revanchism. [ ]

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Although the Honecker interview largely represented a faithful rendition of the Soviet position on a host of issues, it also had passages that reflected the continuing differences between East Berlin and Moscow. Several times during the interview Honecker stressed the need for a political dialogue on disarmament issues and reminded his audience that East Germany is striving to "limit the damage" between the two German states caused by the stationing of missiles in the FRG. These remarks were omitted from the Pravda replay of the interview, on 20 August. Indeed, Honecker's "limiting the damage" theme has not played well in Moscow since it was first aired last November. The Pravda piece on 2 August, for example, took particular exception to the idea that the two Germanys have a particular mission to "limit the damage" caused by INF deployments. [ ]

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We expect the East Europeans to continue to assert themselves, particularly when they see an opportunity to increase economic ties with the West. Like Honecker, Bulgaria's Zhivkov has postponed his September visit to West Germany, but Romania's Ceausescu intends to visit Bonn in October as scheduled.

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Hungarian party chief Kadar--who hosted Chancellor Kohl in June--will travel to Paris in October. Arrangements have also been made for a visit by West German Foreign Minister Genscher to Poland in November. All of this enthusiasm for high level East-West contact detracts from the atmosphere of heightened tension in Europe that Moscow has tried to foster since INF deployment.

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#### The View From Moscow

The Soviets are well aware that the lack of unity in their alliance presents opportunities to the West, in the words of a Central Committee official, "to estrange and wrench the socialist states away from the USSR and to try and change their socioeconomic system." Moscow appears especially concerned about differentiated Western policies that base rewards to East European countries on the degree to which their foreign policy is autonomous and independent of Moscow. Soviet officials have also expressed displeasure over the tendency of some East European states to express common "European" interests in dialogue and cooperation that differ from those of both the United States and the Soviet Union.

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Soviet anxiety over West German efforts to gain influence in Eastern Europe is greatest where East Germany is concerned. Despite a pervasive system of internal controls and a massive Soviet troop presence, Moscow has always held lingering doubts

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about what really happens when East and West Germany get together. Such doubts can only have been heightened by East Germany's open defense of its cooperation with Bonn and the expressions by both Kohl and Honecker regarding a "community of responsibility." From Moscow's perspective, a special relationship between the two German states would not only allow for a more independent East German policy, but could also form the basis of a central European community of interests that would include those East European states (Hungary, Bulgaria, and Romania) which for historical reasons have less to fear from German revanchism. [REDACTED]

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In addition to these concerns, some Soviet leaders also apparently believe that Honecker's cooperative attitude toward Bonn is undermining their efforts to portray East-West relations as having deteriorated dangerously, primarily as a result of NATO's INF deployments. Soviet Foreign Minister Gromyko [REDACTED]

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[REDACTED] made clear last fall that he thought Honecker's warnings of an "ice age" in intra-German relations if Bonn continued to support US INF policy was the proper approach. [REDACTED]

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While the Soviet leadership undoubtedly is united on the basic outline of policy toward Eastern Europe, there is considerable evidence that it has been divided over how to handle Honecker's planned visit to West Germany.

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-- Despite critical media commentaries in late July and early August, Soviet press play in the weeks prior to the cancellation of the Honecker visit seemingly fluctuated between harsher and more moderate treatment of intra-German developments .

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-- Preparations for the visit, including negotiations on a joint communique, continued in Bonn and East Berlin until the end of August.

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Moscow's apparent uncertainty over the broader questions of closer intra-German cooperation may, in part, be attributable to differing bureaucratic and institutional perspectives among Soviet officials concerned with intra-German and East-West issues. [redacted] for example, have noted differences between Soviet officials with economic responsibilities who seemingly support a pragmatic policy of cooperation with the West, and more orthodox political hardliners

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who appear to want more limited economic contacts in order to convince the West of the seriousness of the confrontational atmosphere created by INF deployments. A West German parliamentary delegation that visited Moscow in June, reported that Soviet behavior ranged from accusations of German revanchism to "a more open, reasonable tone in separate sessions on economic subjects." There also appear to be differences between political officials primarily concerned with Bloc relations, who tend to give precedence to Bloc discipline and cohesion, and those officials whose main responsibility is Soviet relations with Western Europe.<sup>2</sup> [REDACTED]

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These variances appear to reflect the bias of middle level officials charged with different responsibilities rather than a serious disagreement at the top. Still the persistence of apparently contradictory signals prior to Honecker's postponement seems to indicate indecisiveness at the top that will add to the uncertainty among Soviet and East European officials. [REDACTED]

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### Outlook

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<sup>2</sup> Articles by Deputy Central Committee Chairman for Bloc relations Rakhmanin, for example, warn about the dangers of ties to the West while comments by West European specialists like Portugalov and Davydov often support East-West cooperation.

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metaphor. There was an unmistakeable "enough is enough" tone to the public scolding Moscow gave in July and early September, to all those involved in promoting intra-German relations. Although Honecker had to revise his judgment of how far was too far, he probably retains some freedom of action. [REDACTED]

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Even before the postponement, we did not expect any major evolution in intra-German affairs during the remainder of 1984. The Honecker visit to West Germany would have been projected and perceived more as a historical first than a substantive visit. Moscow clearly is not in a mood for additional humanitarian concessions, and East Berlin has no pressing need for another credit guarantee. Although the two sides may still sign later this year a low-level environmental accord, both Germanys probably will be content to consolidate and implement agreements already signed. In the meantime, Honecker will seek to preserve his room for maneuver vis-a-vis Moscow by drawing the West Germans into discussions of security issues--or at least increasing domestic pressure on Kohl to acquiesce in such discussions in the future. [REDACTED]

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Another credit for humanitarian concessions agreement comparable to the 1983 and 1984 agreements seems unlikely in the near future unless the signals from Moscow change. Even then, Moscow may demand that Bonn be more accommodating on issues relating to East German sovereignty. The West German

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constitution prohibits the government from endorsing any agreement that confers recognition of East German sovereignty. Some, but not all, of these issues can be finessed, but even these would require protracted bargaining. [REDACTED]

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East Germany, meanwhile, will continue to search for areas of accommodation with Bonn within whatever margins Moscow will tolerate. East Berlin may also continue to pursue its national priorities--while remaining a loyal member of the Warsaw Pact--in less sensitive areas than intra-German relations. The concurrence of views that exists in East Berlin, Budapest, Bucharest, and Sofia may still give them the courage to lobby, as they have in the past year, for changes they believe are necessary for the vitality of the Bloc as a whole. If the Soviets are completely insensitive to alternative views within their alliance, it could add to the tensions within the Pact and make the management of that alliance more difficult. [REDACTED]

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